

*Mission Statement:*

*The UTC protects consumers by ensuring that utility and transportation services are fairly priced, available, reliable, and safe.*



# Washington Utilities and Transportation Commission

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## Water Regulation

March 6, 2008 – Olympic Water

# Role of DOH

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Regulates all (about 16,000) water systems for:

- Water Quality
- Water Quantity

Memorandum of Understanding with DOH  
designates DOH with primary responsibility in  
water quality and water quantity.

# Water Regulation - UTC



- Investor-owned water companies **only**.
  - Serve 100 or more customers, or
  - Average annual gross revenue per customer exceeds \$471 (\$39.25 per month)
- Regulate 64 Water Companies.
  - 700 water systems
  - 50,000 customers
  - \$18.2 million revenue

# We Do Not Regulate

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WUTC does not regulate these service providers:

- Cities, towns, or counties
- Public Utility Districts
- Water or sewer districts
- Local improvement districts
- Homeowner associations
- Persons providing water to their tenants as part of the business of renting or leasing

# What Do We Regulate?

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## Economic regulation

- Rates – How much customers pay.
- Terms and conditions
- Business practices

## Consumer Protection

- Service standards
- Notice & Disclosure
- Complaint mediation

# Rate Filing Process



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- February 11, 2008, Company mailed customer notice, including advice on how to make comments and of the open meeting schedule.
  - February 15, 2008, Company filed its rate case.
  - March 13, 2008, Commission Open Meeting for Customer Comments Only.

# Customer Comments



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Customers who file comments are interested parties and may receive additional information from the commission.

Received the following customer comments:

1. Higher than the rate of inflation.
2. Excessive rates.
3. The company did not file water system plan updates as required by Department of Health.

# Customer Comments

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Other customer comments that the commission frequently receive:

1. Rates are higher than other companies.
2. Company is out of compliance with some state or county requirement.
3. Should have lower rates for seniors and low income.
4. Rate design is not fair.



# Rate Filing Process

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## April 10, 2008, Commission Open Meeting:

- Staff recommendation memorandum.
- Commission action.
  - No Action - allow to become effective by operation of law.
  - Suspend, with temporary rates, subject to refund.
  - Suspend.

# Rate Filing Process



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Staff and the Company may Negotiate Revised Revenue Requirement and / or Rates.

Commissioners have generally allowed the revised rates to become effective on a temporary basis, subject to refund. Staff advises interested parties and provides an opportunity to comment on the revised rates.

# Suspension

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If the filing is suspended:

- May come back to the open meeting process for the Commissioners to consider.
- May be set for hearing. This is a formal proceeding with an Administrative Law Judge, court reporter, sworn testimony by expert witness, written transcripts, etc.
  - Expensive for Company, Customers and the Commission
- Maximum Time Period – 10 Months

# Hearing Process

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## Prehearing Conference

- Petitions to Intervene as a Party
- Hearing Schedule
- Discovery
- Protective Orders

1. Settlement
2. Full Hearing

# Overview

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- Water utility is a going concern – don't turn off.
  - Commission regulates the water company and all affiliated transactions.
  - Set rates using the rate base / rate of return methodology.
    - Prudently incurred, reasonable expenses.
    - Opportunity to earn a reasonable return.

# Affiliates

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The Commission's regulation extends to companies with common ownership.

- 5% or more of voting securities

## Examples:

- Construction company.
- Real estate leasing company.
- Well drilling company.
- Business services.
- Vehicle leasing.

# How Do We Set Rates?

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Rates must be fair, just, reasonable and sufficient. (RCW 80.28.10)

Over 100 years of decisions:

- Commissions (Every state has one.)
- State Courts – Superior, Appeal and Supreme
- Federal Courts
- US Supreme Court

# How Do We Set Rates?

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- Regulatory Principles
  - Customers pay only once for plant.
- Regulatory Accounting
  - Straight line depreciation over the life of the asset.



# How Do We Set Rates?

## Elements of cost-of-service regulation:

- Revenue Requirement.
- Rate Design.

# Revenue Requirement

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- Prudently incurred, reasonable expenses.
- Opportunity to earn a reasonable return.

# Prudently Incurred, Reasonable Expenses

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Examples of expenses that are not allowed in rates.

- Charitable contributions.
- New engine for owner's car.
- Excessive salary.
- Improper or unreasonable affiliate transactions.
- Past operating losses.

# Prudently Incurred, Reasonable Expenses

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Owner is NOT entitled to a salary.

- Ownership investment is rewarded by return.
- All work is compensated based on the job performed.
  - Meter reading compensation for meter reading.

# Reasonable Return

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- Customers pay for plant once.
- Reasonable return is calculated as:

$$\frac{\text{Rate Base} \times \text{Average Cost of Capital}}{\text{Return}}$$

# Rate Base

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Plant in Service (original book cost)

minus      Accumulated depreciation

minus      Contributions in aid of construction

# Average Cost of Capital

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## Debt

3<sup>rd</sup> Party – Actual or Market

Affiliated – Prime + 2 Percent

## Equity

Currently 12%

# Increasing Cost Industry

- Safe Drinking Water Act requirements
  - Testing
  - Treatment or filtration
  - New Arsenic Rule adopted by EPA
  - Pending rules for:
    - Radon
    - Ground water protection
- Infrastructure replacement and upgrade



# Commission Information



Public Comment Complaint Form Records Request

Advanced Search

Home Consumer Public Safety Regulated Industries Documents Hearings & Rulemakings Contact

## About Us

- Mission Statement
- Commissioners
- History
- Organization Chart

## Job Opportunities

- Job Announcements
- Application

## News & Information

- Press Releases
- Email Notifications
- Quarterly Newsletters

## Links

## Voter Registration

# Welcome to the Washington Utilities and Transportation Commission

I would like to... Click to select



## Noteworthy News

- [Commission to hold three trainings for in-state moving companies to learn new rules](#)
- [Utilities commission fines AT&T for overcharging inmates' phone calls](#)
- [State to hold two public meetings on proposal to close Hickox Rd. railroad crossing in Mount Vernon](#)
- [State approves lower-than-requested rate hike for Avista's electric and natural gas customers](#)
- [Vancouver construction company penalized for dig law violations](#)
- [Position opening: Pipeline safety program seeks new director](#)
- [State approves \\$20,000 to improve safety at a railroad crossing in Walla Walla County](#)
- [Commission cuts natural gas rates for customers of three companies in Washington](#)
- [Commission approves cut in natural-gas bills for Puget Sound Energy's customers](#)

[More news...](#)

[Notice on delegation of certain orders](#)

## Docket Lookup

Enter a 6-digit docket number below: (e.g. 050015)

GO

## Quick Links

- [2008 Open Meeting Calendar](#)
- [Open Meeting Agenda](#)
- [Consumer Publication List](#)
- [2007 Annual Reports forms](#)
- [2007 Annual Safety Report](#)
- [Unified Carrier Registration \(UCR\)](#)
- [Records Center](#)
- [Rulemakings](#)
- [Telecommunications](#)
- [Motor Carriers](#)
- [Energy](#)
- [Pipeline](#)
- [Solid Waste \(Garbage\)](#)
- [Water](#)
- [Consumer Guide for Customers Moving Within](#)

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- [Commercial Ferries](#)
- [Common Carriers](#)
- [Exempt](#)
- [Freight Broker](#)
- [Household Goods](#)
- [Non-Profit Bus](#)
- [Solid Waste](#)
- [UCR](#)

**Electronic Filing**

- [E-file Form](#)
- [Insurance](#)

[Regulated Industries >](#)**Water**

The commission regulates over 60 privately owned water companies, serving 80,000 customers.

**Water Customer information** [Who regulates](#) my service?

Water customer [frequently asked questions](#) / [Conservation tips](#) / [Consumer rights and responsibilities](#) / [Surcharges FAQ](#)

**Water Company information**

List of [UTC regulated water companies](#) and [UTC water staff](#)

**Rules**

[Water company](#) rules (Chapter 480-110 WAC);

[Tariffs and contracts](#) (Chapter 480-80 WAC)

[Procedures](#) (Chapter 480-07 WAC)

**Forms**

[Generic water tariff](#)

[Interest rate for customer deposits](#)

[Annual report forms](#)

How to file an [electronic tariffs](#)'

**Other resources and links**

UTC [Laws - Title 80, RCW](#) / [All UTC rules in Title 480 WAC](#)

DOH Office of [Drinking Water](#) / [Consultant list](#) / UTC [links page](#)

**Active water rulemaking**

**Active Cases:**

- [Gold Beach Water Co., Inc.](#)
- [Harrison-Ray Water Co., Inc.](#)
- [Olympic Water & Sewer Inc.](#)
- [Rosario Utilities, L.L.C.](#)



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### Electronic Filing

- [E-file Form](#)
- [Insurance](#)

Regulated Industries > Water >  
**Olympic Water & Sewer, Inc**

### Company Information

#### Tariff

- [Current](#)

#### Annual Report

- [2006](#)
- [2005](#)

#### Water System Plan

- [2007](#)
- [2006](#)
- Co. Transmittal Letter
  - [2007](#)
- DOH Transmittal Letter
  - [2007](#)
  - [2006](#)
- Staff Transmittal Letter
  - [2007](#)
  - [2006](#)

### Rate Case

#### Filing Justification

- [Initial Filing - 02/15/2008 \(UW-080312\)](#)

## Rate Case

### Filing Justification

- [Initial Filing - 02/15/2008 \(UW-080312\)](#)
  - [Transmittal Cover Letter](#)
  - [Capital \(Balance Sheet\)](#)
  - [Customer Notice](#)
  - [Replacement Tariff Pages](#)
  - [Co. Result of Operations \(ROR\) \(Source Data\)](#)
  - [Co. Result of Operations](#)
  - [2008 Revenue Calculation](#)
  - [Prime Rate](#)

### Customer Comments and Company Responses

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### Staff Workpapers - Result of Operations (ROR), Rate Design, and Accounting Adjustments

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### Staff Data Request and Answers

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### Staff Summary of Review, Memo & Recommendations

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### Public Meeting

- Agenda
- Comments

Staff contact: Jim Ward  
Posted/updated: 02/22/2008  
Document list: